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MARKETS

Fund Manager Litt Targets Associated Estates for Management Shakeup

Litt Plans to Nominate Seven New Board Members, Including Former Archstone CEO Sellers



Jonathan Litt, founder and chief executive officer of Land & Building Investment Management, is launching a campaign to replace the board of Associated Estates Realty. *Bloomberg*

By **ROBBIE WHELAN**

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Fund manager Jonathan Litt is launching an activist campaign to replace the board of Associated Estates Realty Corp. , a real-estate investment trust based in Ohio that specializes in multifamily apartment buildings.

In a letter to Associated Estates shareholders filed with securities regulators on Monday, Mr. Litt criticized the company for what he described as decades of underperformance, which he blamed on missteps by the board. Mr. Litt also identified a slate of seven directors he plans to nominate at the company's 2015 annual meeting.

The proposed slate includes R. Scot Sellers, former chief executive of Archstone-Smith Trust, one of the U.S.'s biggest apartment landlords. Archstone-Smith was taken private in a \$22 billion leveraged buyout led by Lehman Brothers in 2007.

Collectively, Mr. Sellers, the members of the proposed board and Mr. Litt's fund company, Land & Buildings in Stamford, Conn., own about 2.9% of Associated Estates's stock. The company has a market value of about \$1.1 billion.

In June, Mr. Litt sent a letter to the Associated Estates board urging a sale of the company, an option he said the company wasn't interested in pursuing.

"We tried to unlock value through dialogue with the management team and we were thwarted," Mr. Litt said in an interview Monday. "We've been told the company is not for sale, and that they're not going to change the strategy."

In Monday's letter, Mr. Litt said the company's expenses are bloated, and that the company issued equity in 2012 and 2013 at a price that amounted to a discount to the value of its assets.

Mr. Litt also criticized the company's governance structure, noting the board is "effectively controlled" by a three-man executive committee led by Chief Executive Jeffrey Friedman and his brother-in-law, construction-company owner Mark Milstein.

Mr. Litt argued that the arrangement has led executives at the company to overpay and make bad decisions regarding the buying and selling of assets.

"The last thing you do when you're trading at a discount is issue stock and buy or build new properties. What they should have been doing all these years is selling properties and buying back stock," Mr. Litt said. "They've just made poor capital-allocation

decisions.”

Associated Estates responded to Mr. Litt’s letter with a news release late Monday saying that while the company welcomes feedback from shareholders, it doesn’t plan to make any changes.

“While we respect Land and Buildings’ views, Associated Estates remains keenly focused on the execution of our strategic plan,” the news release said. The company didn’t respond directly to Mr. Litt’s point.

Mr. Litt over the past few years has emerged as the closest thing the REIT world has to a regular activist investor. Through his fund, which he started in 2008, the former Citigroup Inc. analyst has sought board seats and pushed for changes at companies including BRE Properties Inc. and Mack-Cali Realty Corp.

BRE was sold late last year to Essex Property Trust Inc. for \$4.3 billion in cash and stock. Mr. Litt was appointed to the board of Mack-Cali earlier this year.

Last month, Mr. Litt sent a letter to the board of Pennsylvania REIT, a mall owner based in Philadelphia, urging asset sales.

Write to Robbie Whelan at robbie.whelan@wsj.com

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